

## CREDIT OPINION

5 May 2020



### Contacts

Max Brekke +1.312.706.9969  
 Associate Lead Analyst  
 max.brekke@moody's.com

Eric Harper +1.312.706.9972  
 VP-Senior Analyst  
 eric.harper@moody's.com

### CLIENT SERVICES

Americas 1-212-553-1653  
 Asia Pacific 852-3551-3077  
 Japan 81-3-5408-4100  
 EMEA 44-20-7772-5454

# Whitewater (City of) WI

## Update to credit analysis

### Summary

The [City of Whitewater](#) benefits from stable financial performance, healthy reserves and liquidity and conservative financial management. The institutional presence of the University of Wisconsin-Whitewater campus also provides credit stability. Credit challenges include the city's modestly sized tax base, below average socioeconomic profile and moderate contingent liquidity risk from privately placed debt that is subject to certain debt acceleration provisions. The city's combined debt and pension burden is moderate.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for Whitewater. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the city changes, we will update our opinion at that time.

On April 29, 2020 we downgraded the city's outstanding general obligation unlimited tax (GOULT) bonds to A1 from Aa3.

### Credit strengths

- » Institutional presence of University of Wisconsin-Whitewater
- » Healthy fund balance and liquidity

### Credit challenges

- » Modestly sized tax base and below average socioeconomic profile
- » Limited revenue raising flexibility

### Rating outlook

Outlooks are typically not assigned to local governments with this amount of debt.

### Factors that could lead to an upgrade

- » Significant tax base growth and diversification
- » Strengthening of wealth and income levels
- » Sustained increase in available fund balance and liquidity

## Factors that could lead to a downgrade

- » Sustained operational imbalance that degrades fund balance or liquidity
- » Material growth in the city's debt or pension burdens

## Key indicators

Exhibit 1

Whitewater (City of) WI	2014	2015	2016	2017	2018
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$625,192	\$640,750	\$645,399	\$646,775	\$666,391
Population	14,801	14,866	14,840	14,762	14,766
Full Value Per Capita	\$42,240	\$43,102	\$43,490	\$43,814	\$45,130
Median Family Income (% of US Median)	81.0%	78.1%	76.9%	80.7%	71.6%
<b>Finances</b>					
Operating Revenue (\$000)	\$11,908	\$11,830	\$12,878	\$12,392	\$12,046
Fund Balance (\$000)	\$3,667	\$3,626	\$3,304	\$2,998	\$2,952
Cash Balance (\$000)	\$3,950	\$4,064	\$3,823	\$3,630	\$3,791
Fund Balance as a % of Revenues	30.8%	30.7%	25.7%	24.2%	24.5%
Cash Balance as a % of Revenues	33.2%	34.4%	29.7%	29.3%	31.5%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$21,490	\$18,455	\$17,133	\$14,855	\$14,387
3-Year Average of Moody's ANPL (\$000)	\$5,953	\$8,274	\$11,890	\$13,295	\$14,502
Net Direct Debt / Full Value (%)	3.4%	2.9%	2.7%	2.3%	2.2%
Net Direct Debt / Operating Revenues (x)	1.8x	1.6x	1.3x	1.2x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.0%	1.3%	1.8%	2.1%	2.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.7x	0.9x	1.1x	1.2x

Source: Audited financial statements, US Census Bureau, Moody's Investors Service

## Profile

Whitewater is located 45 miles southeast of [Madison](#) (Aaa stable) and 55 miles southwest of [Milwaukee](#) (A1 negative) and has an estimated population of 14,750. The city is home to the University of Wisconsin at Whitewater, with an enrollment of 11,586. City services include public safety, public works, recreation and general government activities. The city also operates municipal water, sewer and stormwater systems.

## Detailed credit considerations

### Economy and tax base: below average wealth and income; modest tax base with economic recovery to follow university opening

We expect the city's tax base and economic profile to continue modest annual expansion although the coronavirus pandemic may mute growth in the near term. The city's tax base experienced moderate 1.5% growth over the last five years. Whitewater's tax base is moderately concentrated with the top ten taxpayers comprising 22.3% of full value. The largest taxpayer provides student housing at 8% of full value and various residential apartments make up another 3.1%.

Whitewater's resident income metrics are below average, in part reflecting the large student population. The median family income within the city is 72% of the national level and full value per capita is low at \$45,130. The largest employers are the University of

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

Wisconsin with 1,365 employees and [Generac Power Systems, Inc](#) (Ba2 Stable) a manufacturer of generators with 600 employees. The city also benefits from its relative proximity to urban areas with Madison 45 miles northwest and Milwaukee 55 miles northeast. Though the city will benefit long-term from the institutional presence of the university, Whitewater's local economy will be negatively impacted by the coronavirus and closures at the university.

### **Financial operations and reserves: sound financial position and healthy liquidity likely to continue**

We expect the city's financial profile to remain stable, supported by the maintenance of healthy reserves and adherence to its fund balance policy. The city's financial position was healthy in fiscal 2018 with an available operating fund (general, debt service and certain non-major special revenue funds) balance at 24% of revenue. From 2013 to 2017, the city ran annual deficits that pressured fund balances. Unaudited results in fiscal 2019 show an increase of available general fund balance to \$3.4 million, or a general fund balance of 36% of revenues. The city expects a moderate surplus in the general fund for fiscal year 2020, according to the city's 2020 budget.

Whitewater's largest revenue source is intergovernmental aid at 42% of operating revenue, which in part reflects offsetting revenue due to the university's tax exempt properties. Property taxes account for 30% and are limited by state imposed levy limits. The city's major revenue sources are unlikely to see significant declines in fiscal 2020, but could be pressured if the economic impact of the coronavirus were to widen.

### **LIQUIDITY**

Whitewater has healthy liquidity with fiscal 2018 net operating cash totaling \$3.8 million, equivalent to a solid 32% of revenues. Liquidity is expected to improve in fiscal 2019, with total available cash in the general fund at \$5.3 million or 57% of general fund revenues.

The city issued privately placed GO notes in 2019, totaling \$3.4 million with First Citizens State Bank to finance capital projects. We consider this debt a moderate liquidity risk, because the privately placed debt allows for immediate acceleration of principal should certain events of default occur, including a material adverse change in financial position or lender insecurity. The city intends to refinance \$2.3 million of this debt into long-term debt in 2020. Further, the city is in the process of amending certain events of default that allows for acceleration of principal on the remaining \$1.3m of this debt. In the unlikely event of an acceleration of the \$3.4 million, and moderating the liquidity risk, the city benefits from a strong liquidity position of \$6.9 million (unrestricted operating fund and utility revenue cash). In addition to strong governmental liquidity, the city maintains healthy liquidity across its water and sewer enterprises.

### **Debt and pensions: elevated fixed costs; modest pension burden**

We expect Whitewater's above average debt burden to continue due to moderate additional planned borrowing for capital projects. Net direct debt is above average at 2.2% of full value or 1.2x operating revenue. In recent years, Whitewater has issued GO debt to fund capital projects across governmental activities and the city's three business enterprises.

Whitewater plans to issue about \$5 million in long-term debt in 2020 to refinance \$2.3 million short-term notes and to fund planned capital improvement projects. Fixed costs, inclusive of debt service and pension contributions, were elevated at 37% of operating revenue in 2018.

### **DEBT STRUCTURE**

Outstanding debt is fixed-rate and primarily long-term. Whitewater's GOULT bonds (\$18.4 million) are secured by the city's full faith and credit and pledge to levy unlimited ad valorem property taxes.

### **DEBT-RELATED DERIVATIVES**

The city has no exposure to any debt-related derivatives.

### **PENSIONS AND OPEB**

Whitewater participates in the Wisconsin Retirement System (WRS), a statewide cost-sharing plan. Contributions are determined using a level contribution actuarial method in an effort to keep employer and employee contribution rates at a level percentage of payroll over time, and are set at 100% of the plan's funding requirement. As a result, WRS remains one of the best-funded public employee retirement systems in the country, with statewide employer contributions to WRS in 2018 totaling 152.9% of the amount needed to tread water<sup>1</sup>.

The city's three-year average adjusted net pension liability (ANPL) is \$14.5 million, or 1.2x operating revenue and 2.2% of full value. Moody's ANPL reflects the use of a market-based discount rate to value pension liabilities rather than the assumed rate of investment return on plan assets. In comparison, the reported net pension liability (NPL), based on the plan's 7.2% discount rate, was negative \$1.2 million in fiscal 2018, reflecting a net pension asset.

Whitewater's other post-employment benefit (OPEB) obligations do not pose a material credit risk. The city participates in a multiple-employer defined benefit plan, the Local Retiree Life Insurance Fund. This liability is funded on a pay-as-you-go basis, with contributions of \$2,000 in fiscal 2018. The city's net OPEB liability at the close of fiscal 2018 was \$298,000. Moody's adjusted net OPEB liability, which is similar to our adjustments to pension liabilities, was \$301,000 or 2.9% operating revenue and 0.1% of full value.

## ESG considerations

### ENVIRONMENTAL

Environmental considerations are not a primary credit driver. According to data of Moody's affiliate Four Twenty Seven, the City of Whitewater is located in an area with high risk rainfall exposure and low risk to water stress exposure. The city's water enterprise and sewer enterprise are subject to extensive regulation pursuant to the federal Clean Water Act, the Clean Air Act, various administrative rules and regulations and State of Wisconsin regulations. The city is in material compliance with all existing permits relating to the operation of the water and sewer systems.

### SOCIAL

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Whitewater's demographic profile is affected by the university with 11,586 students in a city of 14,766 residents. Median family income is low at 72% of the US and full value per capita is low at \$45,130. In the short-term, university closures are likely to negatively effect the local economy with the severity of the effects depending on the length of the closures. Over the long-term, Whitewater is expected to recover from any disruptions but may be challenged to diversify its economy beyond the university.

### GOVERNANCE

City management maintains a long-term capital plan and a formally adopted policy to maintain a minimum unassigned general fund balance equivalent to 20% of operating expenditures.

Wisconsin cities have an Institutional Framework score of "A", which is moderate. The sector's major revenue source, property tax revenue, is subject to a cap that restricts cities from increasing their operating property tax levies except to capture amounts represented by net new construction growth. Revenues and expenditures tend to be predictable. Across the sector, fixed and mandated costs are generally high. Many cities utilize tax increment districts to attract economic development, often issuing debt to fund initial infrastructure in undeveloped areas. While tax increment districts are ultimately expected to generate revenues sufficient to cover initial city outlay, cities are exposed to economic downturns which could halt development.

## Rating methodology and scorecard factors

The [US Local Government General Obligation Debt methodology](#) includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Whitewater (City of) WI		
Scorecard Factors	Measure	Score
Economy/Tax Base (30%) <sup>[1]</sup>		
Tax Base Size: Full Value (in 000s)	\$696,906	A
Full Value Per Capita	\$47,197	A
Median Family Income (% of US Median)	71.6%	Baa
Notching Factors: <sup>[2]</sup>		
Institutional Presence		Up
Finances (30%)		
Fund Balance as a % of Revenues	24.5%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	-6.5%	Baa
Cash Balance as a % of Revenues	31.5%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-1.3%	Baa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Baa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.0%	A
Net Direct Debt / Operating Revenues (x)	1.2x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.1%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.2x	A
Scorecard-Indicated Outcome		A1
Assigned Rating		A1

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the [GO Methodology Scorecard Inputs publication](#).

Source: Audited financial statements, US Census Bureau, Moody's Investors Service

## Endnotes

- 1 Employer contributions that tread water equal the sum of current year service cost and interest on reported net pension liabilities at the start of the year, using reported actuarial assumptions. If plan assumptions are met exactly, contributions equal to the tread water indicator will prevent the reported net pension liabilities from growing. Net liabilities may decrease or increase in a given year due to factors other than the contribution amount, such as investment performance that exceeds or falls short of a plan's assumed rate of return.

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454